Beyond Retaliation: China’s Long Game in the Trade War

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This time around, trade restrictions in the United States are breaking records as China seems determined to persevere and counter. Since 2018, U.S. tariffs have risen astronomically, and China has been steadily retaliating. For instance, during April 2025, President Trump invoked emergency powers to send duties of 34% on all goods imported from China, at which point Beijing announced 34% tariffs on all U.S. products plus further export restrictions on heavy rare-earth minerals. By mid-April both sides were talking triple -digit rates: the U.S. proposed 145% duties, and China swiftly matched with 125% levies. These measures have crippled normal trade: U.S. shipments to China (worth $440 billion in 2024) were projected to drop by 77% if tariffs stay in place. However, much more retaliatory measures have been taken by Beijing. Instead, Chinese leaders are doubling down on long-term strategies to shield the economy from harm and vulnerability – reorienting growth towards domestic consumption, searching for alternative markets, and using strategic assets such as technology and rare minerals against the adversary.

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One clear priority is diversifying trade and boosting consumption at home. Chinese analysts and officials are increasingly touting the concept of dual circulation, which means balancing exports with a much larger internal market. As one Beijing insider put it, the trade war “compels us to … speed up building a fully integrated domestic economic circulation system.” Top economic advisors say that China’s response is “tit for tat,” but at its core “it is about getting away from the influence of the U.S.” Practically, this translates into taking exports away from the U.S. and sourcing imports elsewhere. China has sharply curtailed its purchases of U.S. farm goods (soy, beef, wheat, etc.): currently 18% of its soybeans come from the U.S. (down from 40% in 2016), and most corn and meat purchased by China comes from Brazil, Argentina, and Ukraine. Brazil has become China’s top agricultural supplier, to the detriment of the U.S., which is evidence of diversification of its markets.

On the other hand, Chinese officials have reiterated that expanding domestic demand is the answer: “In the face of high tariffs…we must take expanding domestic demand as a long-term strategy, make consumption the main driving force…and give play to the advantages of our large market,” Chinese state media has declared. Beijing is telling consumers to buy Chinese goods, both at home and abroad, to fill the gap of lost sales to the United States.

China’s agricultural imports have shifted sharply since 2018. The U.S. share (red) has fallen as Brazil’s (green) and others’ have risen.

The balance of dependency between the two giants changes. China is still a huge market. From the American perspective, China is now the third-largest destination for U.S. exports, after Canada and Mexico, with about $195 billion worth of U.S. goods in 2024. But the U.S. still buys more from China. The Chinese merchandise contributed about 13.5% of all U.S. imports in 2024. The politically correct way to define this is Ï Deficit. This has been a sore point for policymakers in the U.S. for many years, with the gap hovering at roughly $295 billion in 2024. These days, however, U.S. industries complain about everything. A Goldman Sachs study finds that 36% of U.S imports from China are in goods where China supplies over 70% of the U.S. market.

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In other words, many American factories and consumers must rely on Chinese inputs (electronic components, batteries, etc.), so draconian tariffs hurt U.S. buyers as well. By contrast, China is a huge economy that is becoming increasingly self-sufficient. According to analysts, exports to the U.S. actually contribute to only about 3% of China’s GDP, and Beijing has ample fiscal firepower (further stimulus, tax cuts and credit) to counter a slowdown. In short, China can take more pain if it has to. One senior Chinese official bluntly said the nation is prepared to “fight until the end” and believes it can bear more pain.

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Industrial workers around the world are bracing for the impact of China’s long-game strategic moves. Technological self-reliance is one such weapon. The Biden administration imposed stringent U.S. export controls on high-end chips and tools, but China has sworn publicly to make an “all-out-effort” to develop its semiconductors. According to CSIS experts, these export bans only “resulted in China doubling down on its deeply subsidized development efforts” and raising the risk of leaping past existing technology. This basically translates into state funding for chip design, fab equipment, and research, so over time, China might be able to undermine U.S. dominance in areas like AI chips.

A second strategic lever is in the field of rare-earth mineral exploitation. China has now come to dominate the production of rare earth in the globe (accounting for well over 50% of supply), to the extent that a leading expert at CSIS warned that “China processes near a hundred percent of heavy rare earths,” with U.S. manufacturers being “particularly vulnerable” to export curbs. In April 2025, Beijing did just that and imposed heavier restrictions on the export of heavy rare earth exports. This blockade would affect

industries from defense to clean energy since rare-earth magnets are used in jet engines, electric vehicles, and missile guidance. The stakes are incredibly high: as the U.S. Energy Secretary said, these resources are rich in rare earths, it is “absolutely vital” for defense, and any Chinese lead in mining may help usher in whatever military advancement the Chinese may require, while forcing the U.S. to play catch-up.

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Finally, China has unleashed a litany of countermeasures beyond tariffs. In early 2025, Beijing used tariffs, quotas, and inspections to curb U.S. farm imports (suspending shipments of sorghum, poultry, and soybean products). It added dozens of U.S. firms to “unreliable entity” and export-control lists (including major defense contractors and tech companies). China even targeted industries concentrated in U.S. “red” states: for example, high levies on U.S. wheat, pork, and soybeans hit Trump’s farm belt. Meanwhile, state media has delivered martial language. The official People’s Daily said China has engaged in a trade war for eight years and “has accumulated rich experience,” stressing that more domestic demand is the solution.

- After the U.S. hiked its tariffs (to ~145%), Beijing matched with duties up to 125% on U.S. imports
- China restricted exports of heavy rare-earth minerals and other critical inputs, betting its near-monopoly can be a bargaining chip.
- Authorities added U.S. firms to “unreliable” and export-control lists (from drone-makers to chipmakers), limiting their access to the Chinese market.
- Beijing has aggressively sought new trading partners – deepening ties with Europe and ASEAN and sourcing more commodities from Brazil, Africa, and elsewhere.
- Chinese planners have announced massive stimulus (trillions of yuan in spending and credit) and policies to spur consumption and innovation.

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These moves help explain why dependence is shifting. A recent Atlantic Council analysis notes that Chinese exports to the U.S. fell to 14.7% of China’s total in 2024 (down from 19.2% in 2018).

Exports to Southeast Asian and “Belt and Road” markets have grown in their place. Likewise, China’s top commodities have changed. U.S. soy makes up only a fraction of China’s imports, while Brazil and Argentina fill the gap. In short, China is recalibrating its economy for a world where U.S. demand and resources may be unreliable.